NEWS FROM THE LATCO TEAM AT
**ENSORS CHARTERED ACCOUNTANTS**

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# LOOKING AT LATCOs

## New Super-deduction Tax Relief

We certainly do live in 'interesting times' when central banks start to talk about the possibility of negative interest rates and governments start to give tax allowances on more than the cost of asset purchases. However, this is what the Chancellor did in his most recent Budget when he unveiled the Super-deduction.

The Super-deduction will give companies (not unincorporated businesses) a Capital Allowance of 130% on their qualifying expenditure. This is much better than Writing Down Allowances at 18%, and still an improvement even if you were able to claim a 100% deduction under the Annual Investment Allowance (AIA).

With a Corporation Tax rate of 19%, this means that a profitable company spending £100,000 on new machinery would find it only costs them £75,300, whereas under the AIA it costs them £81,000 (Note: the temporary £1m AIA has been extended until 31 December 2021, before it is, theoretically, due to revert to £200,000 per annum).

*Continued overleaf* ➤

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## New Super-deduction Tax Relief *continued*

There are restrictions to think about:

- The relief will only be available for expenditure incurred from 1 April 2021 until 31 March 2023. Apportionments apply for periods that straddle 31 March 2023.
- Any expenditure under a contract entered into before 3 March will not be eligible.
- Only new assets are eligible; second-hand purchases will not qualify.
- The relief will not apply to cars, long-life assets, assets for leasing out, in the period of cessation, or in certain tax avoidance scenarios.

### All well and good, but what's the catch?

Ordinarily, when an asset is disposed of that has been subject to a Capital Allowance claim, the disposal price is deducted from the Capital Allowances pool (the residue of Capital Allowance expenditure on which Writing Down Allowances are claimed each year). It is only if that pool has been exhausted that a balancing charge will be crystallised; taxing so much of the disposal value as exceeds the pool.

With the Super-deduction, the expenditure will need to be kept separate, so a balancing charge will always arise on disposal. But of course, chances are the disposal will take place after the rise in Corporation Tax, and the balancing charge will be taxable at 25%. If it doesn't, then the balancing charge will be multiplied by a factor of up to 1.3 to reflect the additional tax relief claimed on acquisition.

### Practical Impacts

So what practical implications could this new Super-deduction have for LATCOs?

Perhaps one of the most obvious will be the decision as to whether to purchase or lease new assets. In particular those that will have a low residual value at the end of their time with you, such as commercial vehicles or hard working tools.

In cashflow terms, through using Hire Purchase contracts, for example, you can often achieve very similar cash outflows for a purchase as compared to a lease. However, with the new Super-deduction, the lease premium will continue to attract 100% tax relief but the capital HP payments will in effect achieve 130% deduction, with all of that relief, coming at the very start of the HP contract.

As a result it could mean that, unless leasing companies respond to this change and amend their pricing, it could be cheaper to purchase certain assets than lease them. Although, of course, each potential contract would need consideration in its own right prior to reaching that conclusion.

# What Capital Allowances can LATCOs claim on properties?

Commercial buildings are usually fitted out with fixtures, such as electrical wiring, lifts, water, heating and air conditioning systems ('integral features'). Tax relief on these systems could lead to significant savings, but in order to claim Capital Allowances on fixtures, there are strict conditions that must be met.

**Broadly, there are two important requirements:**

**1.** The previous owner(s) of the building must have elected for the fixtures to be in their capital allowance pools; and

**2.** Both parties must agree the value of the fixtures in a joint section 198 election.

If these conditions are not met, you cannot claim any Capital Allowances on the fixtures, so when buying a second-hand commercial property, it is vital the contract includes confirmation of what Capital Allowances have been claimed on fixtures. Also, a s198 election should be signed on completion.

As well as allowances on fixtures, relief may also be available on the cost of the building itself. Structures and Buildings Allowance (SBA) was introduced with effect from 29 October 2018, provided construction of the building did not commence before that date. Even then, it may be possible to claim SBA on modification and remedial works to older properties.

SBA is an annual tax allowance of 3% of qualifying costs (2% until April 2020), available on capital costs of purchase, construction or renovation of eligible non-residential structures and buildings. The allowance is available from when the property is first brought into qualifying use. To claim, the actual amount of qualifying expenditure must be identified.

Estimates are not permitted, so it is important to capture the qualifying costs up front for each property where a claim is possible.

The SBA claim must be supported by an allowance statement, which includes the details of the building or structure and costs claimed.

This statement should be maintained for each qualifying property throughout its 33-year SBA life and included in the legal documents provided to a purchaser of the property.

As you can see, it is important that Capital Allowances are high on the agenda at the very start of the purchase process, otherwise you may miss out on potentially very valuable tax relief.

# Remote working & auditing

As we all transition to the **new normal** the hot topic for discussion is: “To be in the office or not to be in the office?”

Clearly there are pros and cons for each.

Council offices have had most staff working from home since the start of the pandemic and whilst remote meetings allowed Council business to continue, poor internet connection and general unfamiliarity with technology didn’t always allow for efficient proceedings.

Earlier this year the High Court ruled that Council meetings could no longer be held remotely without further emergency legislation, so what we are left with is a hybrid model of working with meetings in person but also being live streamed.

Everyday business is also a mix of staff working at home and staff in the office, and many have adapted as best they can in a very challenging environment to continue their everyday business.

One of the many challenges is dealing with the Council auditors and auditors of the Local Authority Trading Companies (LATCOs) remotely, with an onus on ensuring that timetables are still met and the transfer of data is done in a way that doesn’t compromise security procedures and confidentiality.

As we slowly move from everyone working at home to more hybrid ways of working, the need to constantly reassess processes and controls is paramount. Generally, the COVID-19 working environment increases the inherent risk of fraud. Therefore questions from auditors this year are likely to be more testing.

In addition, for accounting periods commencing on or after 15th December 2019, revisions to auditing standards (ISA (UK) 700) came into force. This revision extended the requirement of auditors to include in the audit report an explanation as to what extent the audit was considered capable of detecting irregularities, including fraud.

Whilst this isn’t a new area, the requirement to report on it is. Irregularities that result from fraud might be inherently more difficult to detect than irregularities that result from error.

The following areas may have changed in the last year:

- Significant laws and regulations in the context of the entity. (i.e. additional Health and Safety requirements).
- Compliance with the legal and regulatory framework (breaches and claims).
- The entity’s policies and procedures on fraud risks, including knowledge of any actual, suspected or alleged fraud and how these have been adapted to allow for remote working.
- The effectiveness of any new controls implemented.

It’s been a difficult year, and the landscape is continuing to change, Internal controls may not be operating the way they usually do.

Stay vigilant, and continually monitor and document changes in the control process – in the current environment, suspicious or unusual activity may be even more difficult to spot!

# Meet the team

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